

360. BAD DEBTS, CHARITY, AND COURTESY ALLOWANCES

A. PRINCIPLE. Bad debts, charity, and courtesy allowances are deductions from revenue and are not to be included in allowable cost.

B. DEFINITIONS.

1. Bad Debts. Bad debts are amounts considered to be uncollectible from accounts and notes receivable which were created or acquired in providing services. "Accounts receivable" and "notes receivable" are designations for claims arising from the rendering of services, and are collectible in money in the relatively near future.

2. Charity Allowances. Charity allowances are reductions in charges made by the provider of services because of the indigence or medical indigence of the patient.

3. Courtesy Allowances. Courtesy allowances indicate a reduction in charges in the form of an allowance to physicians, clergy, members of religious orders, and others as approved by the governing body of the facility, for services received from the facility. Employee fringe benefits, such as hospitalization and personnel health programs, are not considered to be courtesy allowances.

C. NORMAL ACCOUNTING TREATMENT - REDUCTION IN REVENUE.

Bad debts, charity, and courtesy allowances represent reductions in revenue. The failure to collect charges for services rendered does not add to the cost of providing the services. Such costs have already been incurred in the production of the services.

D. CHARITY ALLOWANCES. Charity allowances have no relationship to beneficiaries of the Program and are not allowable costs.

361. COST OF EDUCATIONAL ACTIVITIES

A. PRINCIPLE. An appropriate part of the net cost of approved educational activities shall be an allowable cost.

B. DEFINITIONS.

1. Approved Educational Activities. Approved educational activities means formally organized or planned programs of study usually engaged in by providers in order to enhance the quality of patient care in a facility. These activities shall be licensed where required by State law. Where license is not required, the facility shall receive approval from the recognized national professional organization for the particular activity.
2. Net Cost. The net cost means the cost of approved educational activities (including stipends of trainees, compensation of teachers, and other costs), less any reimbursements from grants, tuition, and specific donations.

3. Appropriate Part. Appropriate part means the net cost of the activity apportioned in accordance with the methods set forth in these principles.

C. ORIENTATION AND ON-THE-JOB TRAINING. The costs of "orientation" and "on-the-job training" are not within the scope of this principle but are recognized as normal operating costs.

362. RESEARCH COSTS

- A. PRINCIPLE. Costs incurred for research purposes, over and above usual patient care, are not includable as allowable costs.
- B. APPLICATION. Where research is conducted in conjunction with and as a part of the care of patients, the costs of usual patient care are allowable to the extent that such costs are not met by funds provided for the research. Under this principle, studies, analyses, surveys, and related activities to serve the facility's administrative and program needs are not excluded as allowable costs.

363. GRANTS, GIFTS AND INCOME FROM ENDOWMENTS

A. PRINCIPLE. Unrestricted grants, gifts, and income from endowments should not be deducted from operating costs in computing reimbursable cost. Grants, gifts, or endowment income designated by a donor for paying specific operating costs shall be deducted from the particular operating cost or group of costs.

B. DEFINITIONS.

1. Unrestricted Grants, Gifts and Income From Endowments. Unrestricted grants, gifts, and income from endowments are funds, cash or otherwise, given to a facility without restriction by the donor as to their use.
2. Designated or Restricted Grants, Gifts, and Income From Endowments. Designated or restricted grants, gifts, and income from endowments are funds, cash or otherwise, which shall be used only for the specific purpose designated by the donor. This does not refer to unrestricted grants, gifts, or income from endowments which have been restricted for a specific purpose by the facility.

C. APPLICATION

1. Unrestricted funds, cash or otherwise, are generally the property of the provider to be used in any manner its management deems appropriate and should not be deducted from operating costs. It would be inequitable to require providers to use the unrestricted funds to reduce the payments for care. The use of these funds is generally a means of recovering costs which are not otherwise recoverable. However any interest earned on these funds shall be subject to the interest offset provisions of this manual.
2. Donor-restricted funds which are designated for paying certain operating expenses should apply and serve to reduce these costs or groups of costs and benefit all patients who use the services covered by the donation. If such costs are not reduced, the facility would secure reimbursement for the same expense twice; it would be reimbursed through the donor-restricted contributions as well as from patients and the Title XIX Program.

364. VALUE OF SERVICES OF NONPAID WORKERS

- A. PRINCIPLE. The value of services performed on a regularly scheduled basis by persons (in positions customarily held by full-time employees) as non-paid workers under arrangements without direct remuneration from the provider shall be allowed as an operating expense for the determination of allowable cost subject to limitations contained in paragraph (B) of this section. The amounts allowed shall not exceed those paid others for similar work. Such amounts shall be identifiable in the records of the facilities as a legal obligation for operating expense. Non-paid workers hired under arrangements with a Cabinet for Human Resources-authorized work experience program shall qualify for purposes of the principles in this section.
- B. LIMITATIONS - SERVICES OF NON-PAID WORKERS. The services shall be performed on a regular, scheduled basis in positions customarily held by full-time employees and necessary to enable the provider to carry out the functions of normal patient care and operation of the facility. The value of services of a type



for which facilities generally do not remunerate individuals performing such services shall not be allowed as a reimbursable cost under the Program.

For example, donated services of individuals in distributing books and magazines to patients, or in serving in a facility canteen or cafeteria or in a facility gift shop, shall not be reimbursed.

- C. APPLICATION. The following illustrates how a facility shall determine an amount to be allowed under this principle: The prevailing salary for a lay nurse is \$5,000 for the year. The lay nurse receives no maintenance or special perquisites. A nun working as a nurse engaged in the same activities in the same facility receives maintenance and special perquisites which cost the facility \$2,000 and are included in the facility's allowable operating costs. The facility may then include in its records an additional \$3,000 to bring the value of the services rendered to \$5,000. The amount of \$3,000 shall be allowed where the facility assumes obligation for the expense under a written agreement with the sisterhood or other religious order covering payment by the facility for the services.

365. PURCHASE DISCOUNTS AND ALLOWANCES, AND REFUNDS OF EXPENSES

A. PRINCIPLE. Discounts and allowances received on purchases of goods or services are reductions of the costs to which they relate. Similarly, refunds of previous expense payments are reductions of the related expense.

B. DEFINITIONS.

1. Discounts. Discounts, in general, are reductions granted for the settlement of debts.

2. Allowances. Allowances are deductions granted for damage, delay, shortage, imperfection, or other causes, excluding discounts and returns.

3. Refunds. Refunds are amounts paid back or credits allowed because of overcollections.

C. NORMAL ACCOUNTING TREATMENT - REDUCTION OF COSTS. All discounts, allowances, and refunds of expenses are reductions in the cost of goods or services purchased and are not income. When they are received in the same accounting period in which the purchases were made or